

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Torch Lake Area Sewage Authority	County Houghton
Fiscal Year End December 31, 2006	Opinion Date May 18, 2007	Date Audit Report Submitted to State May 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

^{YES} _{NO} Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 227-2727	
Street Address 200 Fifth Street, Ste. 104		City Calumet	State MI
		Zip 49913	
Authorizing CPA Signature <i>Jackie A. Aalto</i>	Printed Name Jackie A. Aalto		License Number 1101022394

TORCH LAKE AREA SEWAGE AUTHORITY
Houghton County, Michigan

FINANCIAL REPORT

Year ended December 31, 2006

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INDEPENDENT AUDITOR'S REPORT

Board Members

Torch Lake Area Sewage Authority

Lake Linden, Michigan

I have audited the accompanying basic financial statements of the Torch Lake Area Sewage Authority as of and for the year ended December 31, 2006 as listed in the table of contents. These financial statements are the responsibility of the Torch Lake Area Sewage Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

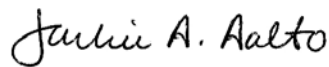
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Torch Lake Area Sewage Authority, as of December 31, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 18, 2007 on my consideration of the Torch Lake Area Sewage Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis (identified in the table on contents) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Torch Lake Area Sewage Authority's basic financial statements. The supplementary information (identified in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

Calumet, Michigan
May 18, 2007

Torch Lake Area Sewage Authority

Management's Discussion and Analysis Year ended December 31, 2006

This section of the annual financial report of the Torch Lake Area Sewage Authority (the "Authority") presents our discussion and analysis of the entity's financial performance for the year ended December 31, 2006. This discussion should be read in conjunction with the financial statements which follow.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

Financial Overview

The Authority generates cash from sewage fees based on water usage and a flat monthly administrative and surcharge fee charged to its customers. It uses the cash to pay for current operations and to pay the interest and principal on the contract and loan payable issued to construct the sewage system and purchase fixed assets. In 2006, cash decreased \$39,072 or 34.93 percent. This decrease in cash was the result of engineering fees paid in conjunction with an expected sewer project. An increase in revenues helps offset these costs.

Sewage rates remained unchanged during 2006.

The Authority has been approved for a \$2,800,000 loan by Rural Development to repair various sections of the system, replace the lift stations and fix the manholes. Preliminary engineering costs have been incurred and it is expected that the project will be put out for bids in the fall of 2007.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$3,698,681. This is a \$60,347 increase over last year's net assets of \$3,638,334.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Torch Lake Area Sewage Authority Summary of Net Assets

	<u>12/31/06</u>	<u>12/31/05</u>
Current and other assets	\$ 147,525	\$ 138,961
Restricted assets	55,099	79,781
Capital assets, net	<u>3,702,852</u>	<u>3,704,855</u>
Total assets	<u>3,905,476</u>	<u>3,923,597</u>
Accounts payable and other current liabilities	92,815	61,949
Contract and loan payable	<u>113,980</u>	<u>223,314</u>
Total liabilities	<u>206,795</u>	<u>285,263</u>
Net assets:		
Invested in capital assets, net of related debt	3,588,872	3,481,541
Restricted for debt service	41,842	44,008
Unrestricted	<u>67,967</u>	<u>112,785</u>
Total net assets	<u>\$ 3,698,681</u>	<u>\$ 3,638,334</u>

**Torch Lake Area Sewage Authority
Summary of Changes in Net Assets**

	<u>12/31/06</u>	<u>12/31/05</u>
Operating revenues	\$ 417,262	\$ 343,706
Operating expenses	<u>371,070</u>	<u>366,061</u>
Operating income (loss)	46,192	(22,355)
Nonoperating revenues (expenses), net	<u>14,155</u>	<u>10,285</u>
Change in net assets	60,347	(12,070)
Beginning net assets	<u>3,638,334</u>	<u>3,650,404</u>
Ending net assets	<u>\$ 3,698,681</u>	<u>\$ 3,638,334</u>

Contacting the Authority's Management

This financial report is designed to provide taxpayers, creditors, investors and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have questions concerning this report please contact Mr. Dennis Racine, Chairman, 20 Gregory Street, Lake Linden, Michigan 49945.

TORCH LAKE AREA SEWAGE AUTHORITY

Statement of Net Assets

December 31, 2006

ASSETS			
CURRENT ASSETS:			
Cash	\$	30,195	
Accounts receivable, net		115,626	
Prepaid expense		<u>1,704</u>	\$ 147,525
NONCURRENT ASSETS:			
Restricted Assets:			
Cash		42,592	
Assessments receivable – debt service		<u>12,507</u>	55,099
Capital Assets:			
Building and improvements		21,791	
Sewer system		7,262,869	
Machinery and equipment		226,985	
Vehicle		14,400	
Construction in progress		<u>166,606</u>	
		7,692,651	
Accumulated depreciation		<u>(3,989,799)</u>	<u>3,702,852</u>
Total Assets			3,905,476
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable		2,434	
Accrued expenses		6,477	
Intergovernmental payable		17,482	
Construction payable		53,165	
Current portion loan payable		23,980	
Payable from restricted assets:			
Accrued interest		750	
Current maturity on contract payable		90,000	
Deferred revenue		<u>12,507</u>	<u>206,795</u>
NET ASSETS			
NET ASSETS:			
Invested in capital assets, net of related debt		3,588,872	
Restricted for debt service		41,842	
Unrestricted		<u>67,967</u>	
Total Net Assets			<u>\$ 3,698,681</u>

The notes to the financial statements are an integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2006

OPERATING REVENUES:

Sewer fees	\$	403,523	
Miscellaneous		<u>13,739</u>	

Total Operating Revenues			417,262
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OPERATING EXPENSES:

Salaries and wages	\$	71,283	
Fringe benefits and taxes		32,147	
Directors' fees		4,640	
Administration		3,511	
Professional services		5,877	
Supplies, maintenance and permits		47,282	
Utilities and telephone		19,841	
Insurance		14,904	
Miscellaneous		2,976	
Depreciation		<u>168,609</u>	<u>371,070</u>

Operating Income			46,192
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NONOPERATING REVENUES (EXPENSES):

Special assessments		19,167	
Interest income		3,205	
Interest expense		<u>(8,217)</u>	<u>14,155</u>

Change in Net Assets			60,347
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NET ASSETS – Beginning			<u>3,638,334</u>
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NET ASSETS – Ending			<u>\$ 3,698,681</u>
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The notes to the financial statements are an integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 374,204
Payments to employees	(100,263)
Payments to suppliers	<u>(103,685)</u>

Net cash provided by operating activities	<u>170,256</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Special assessment proceeds	19,167
Purchase of capital assets	(113,441)
Interest paid on capital debt	(8,925)
Principal paid on capital debt	<u>(109,334)</u>

Net cash used by capital and related financing activities	<u>(212,533)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>3,205</u>
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Decrease in cash	(39,072)
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CASH – Beginning	<u>111,859</u>
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CASH – Ending	<u>\$ 72,787</u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 46,192
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	168,609
Increase in accounts receivable, net	(43,058)
Increase in prepaid expense	(1,704)
Decrease in accounts payable	(1,982)
Increase in accrued expenses	3,167
Decrease in intergovernmental payable	<u>(968)</u>

Net cash provided by operating activities	<u>\$ 170,256</u>
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The notes to the financial statements are an integral part of this statement.

TORCH LAKE AREA SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2006

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The contract forming the Houghton County Sewage Disposal System No. 1 was entered into on April 4, 1977 between the Village of Lake Linden, the Townships of Osceola, Schoolcraft and Torch Lake and the County of Houghton. The contract called for the acquisition, improvement, enlargement, extension, operation and maintenance of a sewage disposal system. The system was completed and became operational in 1979.

The Torch Lake Area Sewage Authority was incorporated on January 14, 1980. It operates under a nine member board consisting of two members each from the Village of Lake Linden and the Townships of Osceola, Schoolcraft and Torch Lake and one member from the County of Houghton. The Authority provides wastewater treatment services to the Village of Lake Linden, and the Townships of Osceola, Schoolcraft and Torch Lake. The accompanying financial statements include only the Torch Lake Area Sewage Authority and do not include any other governmental agencies or departments.

B. Basis of Presentation

The Authority records its financial activity under the proprietary fund type, and within the category of an enterprise fund. The Enterprise Fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The Authority uses the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual method, revenues are recognized when they are earned and expenses are recognized when they are incurred. The Authority applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

TORCH LAKE AREA SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2006

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, demand deposits and short-term investments with maturities of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. The Authority had no cash equivalents at December 31, 2006.

E. Accounts Receivable

Receivables for sewer fees are shown net of an allowance for uncollectibles of \$21,554. Included in the accounts receivable balance is \$39,108 which is due from the Village of Lake Linden, Michigan. This \$39,108 represents amounts due from 2003 through 2007 on collections made by the Village of Lake Linden, Michigan but not remitted to the Authority.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

G. Restricted Assets – Cash

Certain resources set aside for sewage contract payable and equipment replacement are classified as restricted assets on the statement of net assets because their use is limited by the applicable contract or by capital contributors.

H. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Improvements to capital assets that add to the value of the asset or materially extend the asset's life are capitalized at cost. Interest costs incurred during construction of assets are also capitalized.

Capital assets, other than land, are depreciated over the estimated useful life of the asset using the straight-line method. The estimated useful lives over which capital assets are being depreciated are as follows:

Building and improvements	31 years
Sewer system	50 years
Machinery and equipment	5 -10 years
Vehicle	5 years

TORCH LAKE AREA SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2006

I. Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for unpaid accumulated sick leave since the Authority does have a policy to pay a specified amount when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Note 2 – Cash Deposits

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits are in two financial institutions in the name of the Authority. The investment policy used by the Authority is in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the cash deposits at year end are as follows:

Cash & Restricted Cash	
Insured (FDIC)	\$ 78,819
Uninsured	<u>40</u>
Total Cash & Restricted Cash	<u>\$ 78,859</u>

At year end, the carrying amount of cash and restricted cash was \$72,787.

TORCH LAKE AREA SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2006

Note 3 – Components of Restricted Cash

Restricted cash of \$42,592 is for contract payments.

Note 4 – Summary of Capital Assets

A summary of changes in capital assets for the year ended December 31, 2006 follows:

	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/06</u>
Construction in progress	\$	\$ 166,606	\$	\$ 166,606
Building & improvements	21,791			21,791
Sewer system	7,262,869			7,262,869
Machinery & equipment	234,919		(7,934)	226,985
Vehicle	<u>14,400</u>	<u></u>	<u></u>	<u>14,400</u>
Total Assets	7,533,979	166,606	(7,934)	7,692,651
Accumulated depreciation	<u>(3,829,124)</u>	<u>(168,609)</u>	<u>7,934</u>	<u>(3,989,799)</u>
Net Capital Assets	<u>\$ 3,704,855</u>	<u>\$ (2,003)</u>	<u>\$</u>	<u>\$ 3,702,852</u>

The \$166,606 in construction in progress incurred by the Authority is for engineering fees for a project to repair various sections of the sewer system, replace the lift stations and repair the manholes. The total project is expected to cost approximately \$2,800,000 and is anticipated to be put out for bids in the fall of 2007.

Note 5 – Loan and Contract Payable

Loan Payable - The Authority has an installment loan payable which was used to purchase a 1998 Vactor. The loan commenced on July 1, 1998 in the amount of \$186,600 at an interest rate of 5.75%. As of December 31, 2006, the loan balance was \$23,980. This loan is currently expected to be repaid during 2007. Interest for 2007 will be approximately \$758.

Contract Payable - The contract payable reflected in the financial statements consists of general obligation bonds incurred for sewage disposal facilities on behalf of the Village of Lake Linden and the Townships of Osceola, Schoolcraft and Torch Lake. The County of Houghton serves as general obligor for payment of principal and interest on the bonds. Annual transfers equal to principal and interest payments on the debt are made to the County Public Works Department based upon contractual agreements by the above mentioned local units. The final installment of \$92,250, which includes \$2,250 in interest, is due May 2007.

TORCH LAKE AREA SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2006

The following is a summary of the changes in the general long-term debt for the year ended December 31, 2006:

	<u>Balance</u> <u>12/31/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/06</u>	<u>Current</u> <u>Portion</u>
Contract	\$ 175,000	\$	\$ (85,000)	\$ 90,000	\$ 90,000
Installment loan	<u>48,314</u>	<u> </u>	<u>(24,334)</u>	<u>23,980</u>	<u>23,980</u>
Total	<u>\$ 223,314</u>	<u>\$</u>	<u>\$ (109,334)</u>	<u>\$ 113,980</u>	<u>\$ 113,980</u>

Note 6 – Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

Note 7 – Subsequent Event

In May 2007, the Houghton County Board of Commissioners relinquished the county's interest in the Torch Lake Area Sewage System following the Authority's final payment on its bonded indebtedness.

SUPPLEMENTARY INFORMATION

TORCH LAKE AREA SEWAGE AUTHORITY

**Schedule of Revenues and Expenses – Budget to Actual
Operations Only**

For the year ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
OPERATING REVENUES:			
Sewer fees	\$ 374,600	\$ 372,000	\$ 403,523
Miscellaneous	<u>36,000</u>	<u>12,000</u>	<u>13,739</u>
Total Operating Revenues	<u>410,600</u>	<u>384,000</u>	<u>417,262</u>
OPERATING EXPENSES:			
Salaries and wages	62,000	67,600	71,283
Fringe benefits and taxes	24,250	35,000	32,147
Directors' fees	4,700	4,700	4,640
Administration	3,000	3,700	3,511
Professional services	12,000	7,500	5,877
Supplies, maintenance and permits	36,100	59,100	47,282
Utilities and telephone	19,800	19,800	19,841
Insurance	23,400	23,400	14,904
Miscellaneous	4,000	4,000	2,976
Depreciation	<u>148,000</u>	<u>170,000</u>	<u>168,609</u>
Total Operating Expenses	<u>337,250</u>	<u>394,800</u>	<u>371,070</u>
OPERATING INCOME	<u>\$ 73,350</u>	<u>\$ (10,800)</u>	<u>\$ 46,192</u>

This schedule is for supplemental information. It is prepared to present revenues and expenses related to current operations only and as such does not present the results of operations on the basis of generally accepted accounting principles.

FEDERAL PROGRAMS

TORCH LAKE AREA SEWAGE AUTHORITY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board Members

Torch Lake Area Sewage Authority
Lake Linden, Michigan

I have audited the accompanying basic financial statements of the Torch Lake Area Sewage Authority, as of and for the year ended December 31, 2006, and have issued my report thereon dated May 18, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Torch Lake Area Sewage Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Torch Lake Area Sewage Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Torch Lake Area Sewage Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Torch Lake Area Sewage Authority's financial statements that is more than inconsequential will not be prevented or detected by the Torch Lake Area Sewage Authority's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2006-01 and 2006-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Torch Lake Area Sewage Authority's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider items 2006-01 and 2006-02 to be material weaknesses.

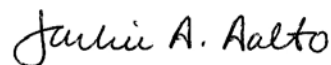
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Torch Lake Area Sewage Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the Torch Lake Area Sewage Authority in a separate letter dated May 18, 2007.

Torch Lake Area Sewage Authority's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Torch Lake Area Sewage Authority's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
May 18, 2007

TORCH LAKE AREA SEWAGE AUTHORITY

Schedule of Findings and Responses

Year ended December 31, 2006

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2006-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the Authority's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The Authority's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the Authority's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Response: We concur with the recommendation.

2006-02 Operation of Internal Control

Criteria: The reconciliation of the accounts receivable records of the Authority's outside billing agents to the Authority's records is important to ensure that the Authority's assets and revenues are properly recorded in the financial statements and to ensure that all amounts collected by third parties is remitted to the Authority.

Condition: Presently the Authority uses outside parties to bill and collect sewer revenues. The Authority does not reconcile the revenues to amounts remitted to the Authority until the year end audit is performed.

Effect: Without reconciling the revenues/billings to the Authority's records on a regular basis there is a risk that monies collected and owed to the Authority are not being remitted to the Authority and that assets and revenues are not being properly recorded in the financial statements.

TORCH LAKE AREA SEWAGE AUTHORITY

Schedule of Findings and Responses

Year ended December 31, 2006

Cause: The Authority's limited personnel and resources result in the inability to provide sufficient staffing to reconcile the revenues to the amounts remitted and accounts receivable balances reported to the Authority.

Recommendation: The Authority should reconcile the billings, collections and receivables on the bimonthly billing cycles to ensure that all monies collected are remitted to the Authority and that the accounts receivable balance and revenues are properly reported.

Response: We concur with the recommendation.

Board Members

**Torch Lake Area Sewage Authority
Lake Linden, Michigan**

In planning and performing my audit of the basic financial statements of the Torch Lake Area Sewage Authority as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, I considered Torch Lake Area Sewage Authority's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the governmental unit's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies and other deficiencies that I consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the following deficiencies to be significant deficiencies in internal control.

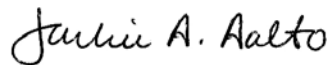
- 1) The size of the Authority's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Authority Board remains involved in the financial affairs of the Authority to provide oversight and independent review functions.
- 2) The reconciliation of the accounts receivable records of the Authority's outside billing agents to the Authority's records is important to ensure that the Authority's assets and revenues are properly recorded in the financial statements and to ensure that all amounts collected by third parties is remitted to the Authority. The Authority should reconcile the billings, collections and receivables on the bimonthly billing cycles to ensure that all monies collected is remitted to the Authority and that the accounts receivable balance and revenues are properly reported.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I believe that the above deficiencies constitute material weaknesses.

In addition, I noted the following other matters involving the internal control and its operations:

- The Authority should have formal written contracts between itself and its outside billing agents.
- Review insurance policies to ensure that the coverage provided is adequate for the size of the Authority's operations.

This communication is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and if applicable, pass-through entities, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

Calumet, Michigan
May 18, 2007